LF Gresham House UK Smaller Companies Fund

Factsheet commentary – June 2023

Past performance is not necessarily a guide to future performance. Portfolio investments in smaller companies typically involve a higher degree of risk. Capital at risk. Extracted portfolio performance is not necessarily indicative of the performance of the fund. Not to be construed as investment advice or a recommendation. Views expressed by the investment team are correct at the time of writing but are subject to change.

Overview

Despite global equity indices broadly delivering positive returns in June, UK indices delivered flat to negative performance as domestic macroeconomic concerns, particularly around inflation stickiness and monetary tightening, weighed on investor sentiment. Notably, this macroeconomic sentiment was also reflected in UK Gilt yields, which approached (and, for short maturities, exceeded) the levels reached in Q4 2022 following the "Mini Budget" developments.

Despite the challenging environment, we remain confident that our portfolio of businesses has strong fundamental characteristics, with most companies exposed to resilient structural growth trends or self-help opportunities and therefore able to perform well despite the wider macroeconomic uncertainty.

News flow across our portfolio companies has on the whole been positive and well received by the market, with a number of trading updates demonstrating better than expected financial performance. In the year to date, c. 85% of portfolio company updates have been in-line or positive relative to market expectations.

The longer-term discounted valuations applied to UK equities, and in particular the smaller companies segment, remains material. Building on the strong momentum in UK plc takeover announcements so far this year, several further takeover announcements followed in June.

Performance[1]

The LF Gresham House UK Smaller Companies Fund decreased by 0.03% during the month, outperforming the IA UK Smaller Companies sector which decreased by 1.37%.[2]

Key contributions came from **XPS Pensions Group** (+10%) following well received annual results, which exceeded market expectations and led to analyst upgrades; **Brooks Macdonald** (+9%) on no specific news other than the appointment of the new CFO; and **FRP Advisory** (+15%) on no specific news.

The largest detractors to performance were **Learning Technologies Group** (-18%) despite its AGM trading update indicating moderate business momentum in a challenging macro environment; and **Alpha FMC** (-14%), which weakened following in-line FY23 results, with the outlook statement indicating potential short-term weakness driven by higher levels of competition and lengthening sales cycles.

1. Please refer to the factsheet for full UCITS-compliant performance figures.

2. The IA UK Smaller Companies sector comparator is used for illustrative purposes only.

Portfolio activity

We made one new investment in the period, into **Idox**, a leading supplier of specialist information management solutions and services, principally to the public sector. The business operates in an attractive niche, with defensive characteristics and an increasing proportion of high-quality recurring revenue.

We also made selective follow-on investments, including into **Craneware**, a leading provider of administrative and operational SaaS solutions to the US healthcare market; the structural growth opportunity in the US healthcare market and significant levels of contracted recurring revenue are not currently reflected in the valuation; and **Watkin Jones**, a leading developer and project manager of purpose-built student accommodation and build-to-rent properties across the UK and Ireland, which de-rated following a challenging H1 2023 but which the Manager believes stands to benefit from long-term structural growth tailwinds.

There were no full exits during the period.

Outlook

We continue to expect that market conditions will remain volatile throughout the second half of 2023, with a particular focus on the UK's inflation trajectory and implications for, inter alia, the monetary policy path. However, the Fund remains well positioned, with a portfolio of relatively resilient businesses, exposed to structural growth trends and with strong fundamental characteristics that we believe should perform well through the cycle.

While we view the outlook with suitable caution, we expect heightened volatility to drive attractive long-term investment opportunities and we remain vigilant for evidence of mispricing. We remain selective and disciplined in our approach, seeking high-quality companies with attractive long-term structural capital growth at sensible valuations.

As already supported by announcements during the first half of the year, which continued at pace in June, we expect to see further takeover activity amongst listed UK companies in the second half of the year, as corporate and private equity buyers seek to benefit from the ongoing dislocation between strong company fundamentals and UK equity valuations. Significant levels of capital yet to be deployed by private equity firms could continue to provide a supportive landscape for elevated corporate activity over the short to medium term.

Important information

third-party liability is accepted by GHAM, its members and employees, or its affiliates and their directors, in respect of errors and omissions, other than under the duties and liabilities of the Financial Services and Markets Act 2000. Potential investors are advised to independently review and/or obtain independent professional advice and draw their own conclusions regarding the economic benefit and risks of investing in the securities and legal, regulatory, credit, tax, and accounting aspects in relation to their particular circumstances. The recipient should consult its tax, legal, and accounting or other advisers about the issues discussed herein and shall be solely responsible for evaluating the risks and merits involved in the content of this Document.

This Document is provided for the purpose of information only and before investing you should read the Prospectus and the Key Investor Information Document (KIID) as they contain important information regarding the Fund, including charges, tax and fund specific risk warnings and will form the basis of any investment. The Prospectus, KIID and application forms are available from Link Fund Solutions, the Authorised Corporate Director of the Fund (Tel. No. 0345 922 0044). Investors are reminded that past performance is not indicative of future results.

Funds investing in smaller companies may carry a higher degree of risk than funds investing in larger companies. The shares of smaller companies may be less liquid than securities in larger companies.

No person, especially those who do not have professional experience in matters relating to investments, must rely on the contents of this document. If you are in any doubt as to the matters contained in this Document, you should seek independent advice where necessary. This Document has not been submitted to or approved by the securities regulatory authority of any state or jurisdiction. This Document is intended for distribution in the United Kingdom only. Any dissemination or unauthorised use of this Document outside the United Kingdom by any person or entity is strictly prohibited.

Please contact a member of the Gresham House team if you wish to discuss your investment or provide feedback on this presentation. Gresham House is committed to meeting the needs and expectations of all stakeholders and welcomes any suggestions to improve its service delivery.

www.greshamhouse.com | (0) 20 7382 0999